

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

March 5, 2002

The President's 2003 Health Budget

Dear Democratic Colleague:

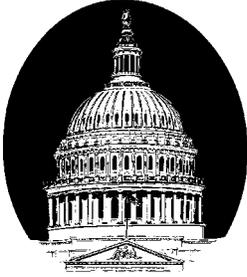
Attached is an issue brief, "The President's 2003 Health Budget," that analyzes the President's proposals for health programs. For a detailed look at the President's entire budget, please look at "Return to Red Ink: Back to Budget Deficits" on our website at: http://www.house.gov/budget_democrats.

The President released his budget on February 4, and while Democrats strongly support the war on terrorism at home and abroad, we do not support the budget's cuts in vital domestic discretionary programs, its insistence on tax cuts paid for by the Social Security surplus, and its omission of a real Medicare prescription drug benefit. Overall appropriations for domestic programs — non-defense, non-homeland security, non-international programs — are \$12.4 billion (3.4 percent) below the 2002 level. The budget targets many of these cuts on the very areas the government has the most responsibility to help: low-income and vulnerable populations, environmental clean-up and conservation, and our future economic security.

The House Budget Committee is scheduled to mark up a budget resolution next week and to send it to the floor before the Spring District Work Period on March 25. I hope you find this information helpful as we move forward in this process. Please call me or the Budget Committee Democratic staff at 6-7200 if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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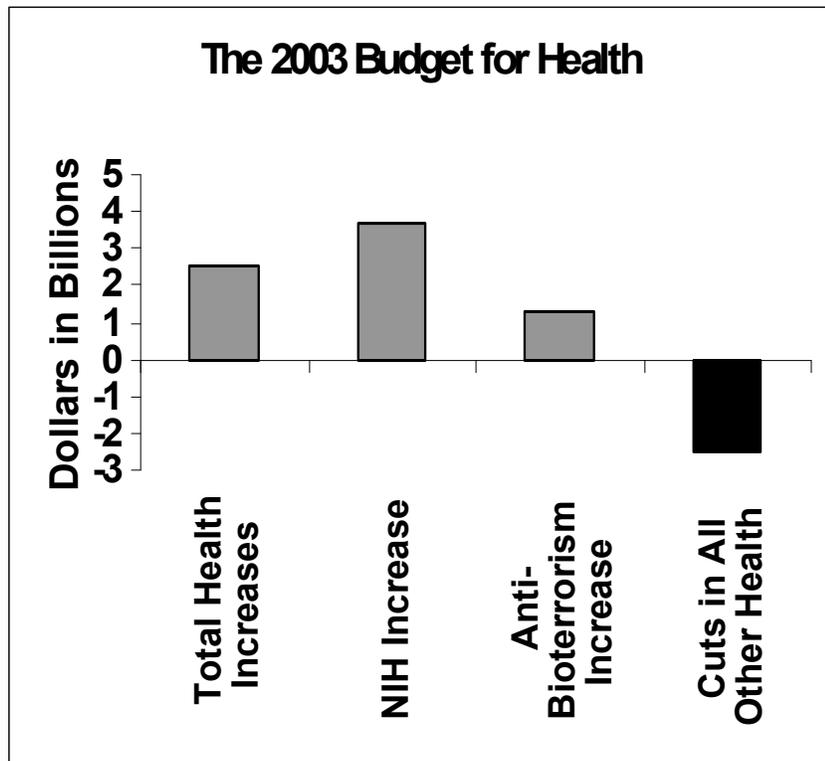
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The President's 2003 Health Budget

For 2003, the President's budget increases overall appropriations for health programs by \$2.5 billion over the 2002 enacted level, and 3.0 percent more than the amount that CBO says is necessary to maintain purchasing power at the 2002 level.

However, when examined in detail, it is clear that this overall increase is insufficient to fund the even larger increases (\$5.0 billion more than the 2002 enacted level) included for the National Institutes of Health (\$3.7 billion) and anti-bioterrorism activities (\$1.3 billion) without cutting funding for other programs by a corresponding \$2.5 billion. For 2003, funding for the National Institutes of Health (NIH) alone represents over half (56.0 percent) of the funding for appropriated health programs.



While the increases for NIH and anti-bioterrorism activities are supported by Congress on a bipartisan basis, there is real concern about eliminating, cutting, or freezing other health-related activities that promote training for the health care workforce, and that provide most direct health care services programs for those who are vulnerable, poor, or living in under-served areas with high rates of uninsured persons.

Health Programs Subject to Annual Appropriations

- ***Anti-Bioterrorism Funding*** — For the fight against bioterrorism, the budget includes \$4.3 billion for 2003, an increase of \$1.3 billion (43.3 percent) over the 2002 enacted level. The Public Health and Social Services Emergency Fund (PHSSEF) receives \$2.3 billion of this amount and provides funding for state and local preparedness, pharmaceutical procurement, and federal medical and public health response. Several agencies (e.g. Centers for Disease Control and Prevention) within the Department of Health and Human Services are responsible for responding to the medical and public health consequences of bioterrorism and receive funding for anti-terrorism activities directly or through transfers from the PHSSEF.
- ***Doubling Funds for NIH*** — For 2003, the budget increases NIH funding by \$3.7 billion (15.7 percent) over the 2002 enacted level. This increase is the final installment in the bipartisan commitment to double the NIH budget over five years (1999-2003). According to the Administration, about 40 percent of the 2003 increase is earmarked for bioterrorism prevention and treatment research. For 2003, NIH funding represents over half (56.0 percent) of the funding for appropriated health programs.
- ***Freeze Ryan White AIDS Programs*** — For 2003, the budget freezes Ryan White AIDS programs at the 2002 level of \$1.9 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.

Last year, a Kaiser Family Foundation survey (March 29, 2001) of ADAPs showed that these programs are key in providing HIV-related drugs to under-insured and uninsured persons living with HIV/AIDS. Ryan White programs fill the gaps for many with HIV/AIDS who do not have insurance and cannot qualify for Medicaid.

- ***Freeze Title X Family Planning*** — The budget freezes Title X family planning programs at the 2002 level of \$266 million for 2003.
- ***Freeze Maternal and Child Health (MCH) Block Grant*** — For 2003, the budget freezes the MCH block grant at the 2002 enacted level of \$739 million. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.
- ***Freeze Healthy Start*** — The budget freezes Healthy Start at the 2002 level of \$99 million for 2003. The Healthy Start program supports programs in targeted high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.

- ***Cut Health Professions Training Programs*** — For 2003, the budget cuts health professions training by \$278 million (71.6 percent) below the 2002 enacted level.
- ***Eliminate Community Access Program (CAP)*** — The budget eliminates the community access program for 2003, a cut of \$105 million. CAP provides grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Eliminate State Planning Grants*** — The budget eliminates state planning grants for 2003, a cut of \$15 million. These grants are used by states to develop designs for providing access to health insurance coverage to all people in a state.
- ***Telehealth Activities Slashed*** — For 2003, the budget cuts telehealth activities by \$33 million (84.6 percent) below the 2002 enacted level.
- ***Rural Health Activities Slashed*** — Rural health activities are cut by \$54 million (41.9 percent) below the 2002 enacted level. These programs provide a range of health care services, outreach, research and education to rural communities across the country.
- ***Gut Children’s Hospital Graduate Medical Education (GME)*** — For 2003, the budget cuts pediatric GME by \$85 million (29.8 percent) below the 2002 enacted level. Funding drops to \$200 million for 2003. These funds are currently used by children’s teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***Rob Drug Prevention Programs to Pay for Drug Treatment Programs*** — The budget funds the Substance Abuse and Mental Health Services Administration (SAMHSA) at \$3.2 billion for 2003, an increase of \$57 million over the 2002 enacted level. Mental health activities are frozen at the 2002 level of \$832 million. Substance abuse activities are funded at \$2.3 billion, a net increase of \$82 million. Substance abuse treatment programs are increased \$127 million (6.3 percent) over the 2002 level. However, the prevention programs are cut \$45 million (22.7 percent) from the 2002 enacted level.

Medicare Benefits

- ***Unspecified Medicare Reform and Inadequate Prescription Drug Coverage*** — The President’s 2003 budget includes \$190.2 billion over ten years (2003-2012) to reform Medicare and provide immediate assistance to states providing prescription drug coverage to low-income seniors. Of the \$190.2 billion included in the budget, \$77.1 billion is for state-sponsored prescription drug programs. Last year’s Republican budget resolution included \$300 billion for these purposes. Like the Administration’s budget last year, this one does not outline the planned Medicare reforms and fails to provide a Medicare prescription drug benefit to all seniors.

The budget includes immediate funding in 2003 for the prescription drug assistance to the states. The funding for the undefined reform and modernization plan is not available until 2006.

Inadequate Increases in Medicare Provider Payments

- ***Limited Increase in Payments to Medicare Managed Care (Medicare + Choice)*** — The budget increases Medicare spending an additional \$3.7 billion relative to current law over five years (2003-2007) for increased payments to some Medicare managed care plans. The budget increases payments to those Medicare managed care plans that received only minimum updates. This increase is a partial response to the recent recommendations of MedPAC (Congress' Medicare Advisory Commission) to increase Medicare + Choice payments. The budget also includes incentive payments to plans to join Medicare + Choice which result in increased spending of \$440 million over the same period.
- ***Budget Fails to Provide Relief to Any Other Health Care Providers*** — In addition to recommending increases in managed care payments, MedPAC made several other recommendations about necessary increases in provider payments. The budget is silent on these provider payment formulas, which stem from the Medicare revisions in the Balanced Budget Act of 1997 (BBA).
- ***Republicans Question Budget's Lack of Resources for Provider Payments*** — In a letter (2/8/02) to Sec. Tommy Thompson, the Chairman of the House Ways and Means Committee, Rep. Bill Thomas, points out that the Administration's budget falls far short of the of the \$174 billion over the next ten years (2003-2012) that MedPAC says is required to restore provider payments for physicians, hospitals (with special attention to rural and small urban hospitals), skilled nursing facilities, home health agencies, and dialysis facilities.
- ***Cuts in Graduate Medical Education (GME) Payments*** — The budget extends some expiring GME payment cuts that would otherwise expire. Reported cuts are \$570 million over ten years (2003-2012).

Medicaid and the State Children's Health Insurance Program (SCHIP)

- ***No Permanent Extension of the Transitional Medicaid Assistance (TMA)*** — The budget fails to extend TMA for more than one year. This program is an integral part of welfare reform. It provides health coverage for former welfare recipients as they enter the workforce. When Congress extends the current welfare law, it is likely to extend TMA for more than one year.
- ***Rebasing Medicaid Prescription Drugs Cuts Costs*** — The budget cuts Medicaid spending relative to current law by \$5.5 billion over five years (2003-2007), and \$17.6 billion over ten years (2003-2012), by revising the base formula used to calculate the Medicaid drug rebate. These funds are not plowed back into the Medicaid program.

- **Cut State Funds Under Regulatory Revision in Upper Payment Limit (UPL)** — An additional reduction in Medicaid spending of \$11.0 billion over five years (2003-2007) occurs as a result of the Administration's recent adoption of rules further tightening the upper payment limit (UPL) for certain non-state government-owned hospitals. This regulatory action is not a result of 2003 budget proposals, and further legislative action is not required to implement the rule. Nevertheless, it does have the effect of lowering state Medicaid payments to those states with higher UPL plans or those seeking to have such plans approved.
- **Coverage Lost for 900,000 Children Under SCHIP** — The budget projects that 900,000 children will lose their SCHIP coverage between 2003 and 2006. Although the budget permits states to retain \$3.2 billion in expiring SCHIP funds that would otherwise be returned to the Treasury, it does nothing more to prevent these children from losing their coverage.

Health-Related Tax Credits

- **Tax Credits for the Uninsured** — The budget creates a refundable income tax credit for health insurance costs for those who do not have public or employer-provided health plans. The credit provides a subsidy for a percentage of the health insurance premium, up to a maximum credit of \$1,000 per adult and \$500 per child (up to two children). A two-parent family with two children would be eligible for a maximum credit of \$3,000. Health insurance plans for families typically cost more than \$7,000 annually.